Coronavirus Stimulus Package Offers Relief for Retirees with RMD Waiver and Penalty-Free 401(k) Withdrawals

There's help for older Americans caught between a falling stock market and low interest rates

Written by Michelle Singletary, Washington Post, 3/30/2020

While many people have focused on the checks they may get as a result of the massive legislation passed to mitigate the economic impact of the coronavirus, there's very important but little-noticed relief for retirees.

Tucked in the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, are several provisions that cover retirement accounts. Here's what you should know.

— **Required minimum distributions (RMDs) are suspended for 2020**. Concerned that they would have to take distributions from their retirement accounts with the market now down sharply for the year, many seniors had hoped Congress would suspend their RMDs for 2020.

"Current balances are massively reduced from end-of-2019 balances, and retirees will wind up being forced to sell their stocks/funds at bargain-basement prices," one District reader wrote.

During the last financial crisis, when the stock market crashed, Congress suspended RMDs for 2009.

You are required by law to take withdrawals from your IRA, SIMPLE IRA, SEP IRA or retirement plan such as a 401(k) once you reach 72. (It was 70½ before 2020.) But the CARES Act waives RMD payments for 2020, including for inherited IRAs. Additionally, the waiver covers the first RMD, which individuals may have delayed from 2019 until April 1, according to a summary of the Act's provisions by Fidelity Investments.

You have until April 1 of the following year after reaching the required RMD age to take your first RMD payment. This deadline applies to the RMD only for the first year. Every year thereafter, you have to take your distributions by Dec. 31.

"If the 2020 RMDs had not been waived, you likely would have had to withdraw a greater percentage of your IRA or plan balance and pay a big tax bill on value that no longer exists," wrote Ed Slott, a certified public accountant, in a post on AARP's website about the RMD provision in the new law. "So, it's good Congress gave us all a year off to sit this out and see what happens, and hopefully have more time to recover losses."

— **Penalty-free withdrawal from your retirement plan**. If you are younger than 59½, you are subject to a 10 percent early withdrawal penalty on top of the income tax owed on your withdrawal. The CARES Act waives the 10 percent penalty for IRAs and defined contribution plans for participants experiencing financial hardship.

"I'm not a big fan of this part, because it's encouraging people to dip into their retirement accounts early," said David Certner, AARP's legislative counsel and legislative policy director. "It's never a good idea. It's particularly not a good idea when the market is down. But for people who are in really bad shape, this may be their one emergency alternative."

Coronavirus-related distributions can be taken for the following reasons:

— You, your spouse or dependent has been diagnosed with the coronavirus.

— You've experienced adverse financial consequences as a result of being quarantined, furloughed or laid off, or your work hours have been reduced.

— You're unable to work because of a lack of child care.

— You've had to close or reduce the hours of a business as a result of the virus.

— You've been financially impacted by other factors determined by the treasury secretary.

Withdrawals up to $100,000 made on or after Jan. 1 would not incur the penalty, according to the Society for Human Resource Management (SHRM), which also has a useful analysis of the work-related provisions in the CARES Act.

To ease the tax burden, if you pull money from your retirement account, you have up to three years to pay taxes on the withdrawals. You can repay all or a portion of the distribution within three years, and the repayments will not be counted toward the annual contribution limits. For 2020, the maximum contribution to a 401(k) or similar retirement plan is $19,500. If you're 50 or older, you can also contribute an extra $6,500. The annual limit for an IRA is $6,000, with a $1,000 catch-up limit if you're 50 or older.

— **Retirement plan loan amount is doubled**. Loan limits from retirement plans have been increased from $50,000 to $100,000. The existing rule that loans may not exceed half the vested account balance has been removed, AARP notes. New and existing loan payments can be deferred for a year.

"Retirement plans can make amendments and adopt these rules immediately, even if the plan does not currently allow for hardship distributions or loans," according to SHRM.

In the coming weeks, the IRS will clarify a lot of what's in the CARES Act and issue guidance. Before you make a move, you would be wise to double-check what's allowed. I would recommend you frequently check what the IRS said at irs.gov/coronavirus.

"Older Americans face the one-two punch of coronavirus's health and economic consequences, and many need immediate relief and ongoing help and support to cope with the pandemic," AARP chief executive Jo Ann Jenkins said in a statement following the passage of the legislation. "Those needs are only set to grow in the weeks and months ahead."